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After the Ban: U.S. Beef Exports to Japan Lag Demand

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Japanese consumers are among the world's most demanding in their expectations for safety, quality, taste, and value in the food products they purchase. Reminding these consumers that U.S. beef meets all these criteria and rebuilding demand after a two-and-a-half-year absence from the market will require careful marketing, safety assurances, rebuilding of trade relationships—and adequate supplies. In the months following the reopening of the Japanese market to U.S. beef, importers were expressing frustration that they were unable to obtain enough U.S. beef to meet demand, even at the very low volumes needed for a slowly expanding, very cautious market.

The shortage of eligible beef caught some industry participants by surprise. Following the December 2003 ban on U.S. beef, the Japanese government conducted their side of negotiations to reopen their market to U.S. beef in a politically charged environment under strong criticism from political opponents, the Japanese media, and consumer groups. Numerous surveys were published indicating that the majority of Japanese consumers would be unwilling to purchase U.S. beef when it re-entered the market. Negative reports about the safety of U.S. beef and the U.S. export verification system gained steam when the market was reopened only briefly before banned materials were found in a shipment of U.S. veal. It took another six months of negotiations and inspection of U.S. plants by Japanese officials before the market again reopened on July 26, 2006. Given the negative political and media messages questioning the safety of U.S. beef, it is not surprising that Japa-

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nese consumers expressed caution in surveys about purchasing U.S. beef and that most supermarkets did not immediately stock U.S. beef for sale.

A Return of Confidence— and Demand

Once U.S. beef began to reach Japanese consumers, however, the Japanese media switched its focus and began reporting on examples of strong acceptance of U.S. beef by some consumers. Costco and Zenshoku Co. received wide coverage for being the first supermarket and restaurant chain, respectively, to offer U.S. beef following the ban. On September 18, Yoshinoya D&C Co. sold one million servings of gyudon (“beef bowl”) made with U.S. beef in just 10 hours. Newspapers reported that customers had waited in long lines for the Yoshinoya restaurants to open. These early reports of consumer confidence in U.S. beef were supported by results from taste tests in Japanese supermarkets and other

venues where Japanese consumers eagerly sampled U.S. beef.

These initial successes were important signals to many Japanese consumers who were waiting to see what other consumers would do, and to the Japanese restaurateurs and retailers who were waiting to see whether their customers would accept U.S. beef. The successes also revealed that Japanese importers wanted more U.S. beef than was being supplied.

From August through November 2006, the United States exported 8,825 metric tons of beef to Japan. The total volume that might have been exported if the supply of eligible beef had been unlimited is unknown, but more beef could have been shipped. Japanese importers who began purchasing beef immediately after the ban was lifted in July were unable to obtain enough, and importers who waited to judge consumer acceptance found themselves struggling to fill supply chains. The shortage of eligible U.S. beef was attributed to a lack of U.S. fed cattle with documented age verification.

Restrictions Narrow the Funnel

Current Japanese restrictions require that U.S. beef be harvested from animals 20 months of age or younger at the time of slaughter. Age can be verified by enrolling calves in a USDA-approved Quality System Assessment (QSA) program or Process Verified Program, or cattle can be determined to be A⁴⁰ physiological maturity or younger through an official USDA evaluation using the U.S. Standards for Carcass Beef and the description of maturity characteristics within A maturity. In a 2005 study to determine the relationship between chronological and physiological age of U.S. fed beef, USDA estimated that the mean age of U.S. fed cattle at harvest was about 16 to 17 months of age and

that 97 percent of U.S. fed cattle were being harvested before 20 months of age. However, only about 5 percent of U.S. fed cattle had documentation proving chronological age. The study also found that an A⁴⁰ maturity score for U.S. carcasses ensures the beef is harvested from an animal 20 months of age or younger, but the A⁴⁰ score is such a conservative measure of physiological age that less than 8 percent of the cattle in the USDA dataset produced carcasses with a maturity score of A⁴⁰ or younger. Thus, at the time of the study, the U.S. industry had a low volume of carcasses that would potentially qualify for Japan under either method.

Other factors further reduced the volume of eligible beef. Japan inspected and approved U.S. packing facilities to export beef. Not all qualified cattle were being harvested at one of the 34 packing facilities approved to export beef to Japan, and not all the approved facilities were exporting beef to Japan immediately after U.S. beef was allowed to enter Japan. Industry experts estimated that around 3 percent of U.S. beef could potentially qualify for export

to Japan when U.S. beef was allowed re-entry into Japan in July 2006. Thus, although the United States is producing vast quantities of the age and type of beef demanded by the Japanese market, Japanese importers have been unable to source enough eligible beef.

Ramping Up Eligibility

The percentage of U.S. cattle that can achieve A⁴⁰ maturity scores would be expected to show little variation, but producers can control the number of cattle enrolled in an approved age verification program. In 2007, more beef should become available as higher numbers of animals enrolled in approved QSA or Process Verified Programs become ready for harvest, and it will be important for the U.S. industry to continue to provide a large stream of documented animals indefinitely. As the first six-month verification period for the U.S. export verification program for beef to Japan neared an end, the Japanese government declined a USDA request to engage in discussions about raising the age limit of cattle from which beef can be harvested. The Japanese

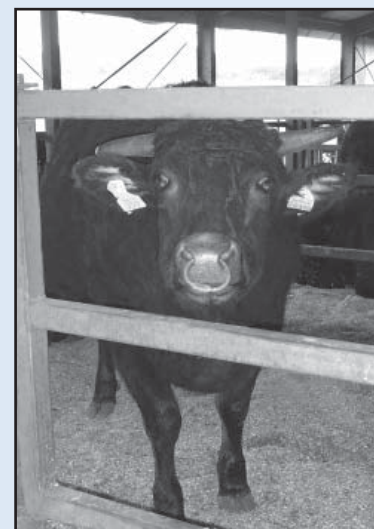
government indicated that it will conduct a second audit, confirm the audit results, and make the results public before considering changes to the current system. It is likely that discussions about age eventually will take place, but if the negotiations over reopening the market serve as an indication, considerable time could elapse before changes are actually implemented.

Another advantage of using documented age verification programs is that Japanese importers seeking to assure their buyers and end-users about the safety of U.S. beef prefer this form of verification because “there is no story with A⁴⁰ beef.” The story about how and where meat is produced is an important marketing tool in Japan and will continue to be important even if the age limit for U.S. cattle is increased or lifted. Further, the ability to provide only specific cuts to Japan will continue to be a major advantage for the U.S. industry. To meet these preferences for documentation and cuts as demand increases in Japan, the U.S. industry will need to increase its production of eligible beef. ♦

Beef Production Information and Consumer Assurance

Japanese importers seeking to assure buyers and end-users about the safety of imported beef prefer documented age verification programs because they provide a story about how the beef was produced. Such information is a valuable consumer assurance tool in Japan, where consumers can obtain the production history of domestic cattle from the birth of the source animal through sale of individual beef cuts in the supermarket meat case. Under the mandatory cattle identification system operated by the government, producers double-tag each animal with a unique 10-digit ID number at birth. Producers then fax specific “event” information for each animal to government offices, where the data are entered into a database. The ID number can be used to view production

information via the Internet at any time during the animal’s life and is labeled on meat sold in supermarkets. Using the number, producers and consumers can obtain such information as the animal’s birth date, sex, breed, place of birth, calf producer’s name, dates of movements to different facilities, and harvest date. Cellular phones with Internet access capabilities have increased the accessibility of the database because a computer is no longer required to view the data. The Japanese system sets a high standard that would not be cost-effective for many foreign suppliers to try to match. However, importers indicate that documented age and source verification, even without full traceability, is far preferable to physiological age determination as U.S. beef attempts to regain a foothold in the Japanese market.



All Japanese cattle are source and age verified from birth using ear tags with a unique 10-digit animal identification code.